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STATE OF CALIFORNIA

Office of the
Auditor General

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JOHN H. McCONNELL, C.P.A.
DEPUTIES

January 22, 1975

Honorable Bob Wilson
Chairman, and Members of the
Joint Legislative Audit Committee
Room 4126, State Capitol
Sacramento, California 95814

Dear Mr. Chairman and Members:

Transmitted herewith is our Report on Activities of the Office of the Auditor General for the Two-Year Period Ending December 31, 1974. Some of the highlights during this period were as follows:

Personnel

On October 28, 1973, you appointed Harvey M. Rose as Auditor General. On June 17, 1974, you appointed Glen H. (Jack) Merritt as Chief Deputy Auditor General.

As a result of intensive recruitment efforts, all authorized positions in the Office were filled. I want to personally commend each and every member of our staff. They have clearly demonstrated their dedication to objectively report the facts to you and to assist you, the entire Legislature and the taxpayers in making our state government operate in the most efficient, effective and economical manner possible.

Reports

The Office completed 104 reports with a clear emphasis, as you directed, on management or performance audits. While we recognize the significant need for and value of financial audits of state agencies, and have periodically made such audits as directed by you, we strongly believe that in terms of payoff to the taxpayers, the performance audits produce the big dividends.

Office of the Auditor General

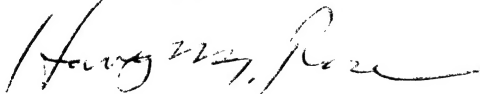
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Savings and Benefits

The recommendations contained in our reports, if properly implemented, will result in hard cash savings of at least \$60,950,000 annually and one-time savings amounting to \$128,878,597. Further, our reports have the added benefits of evaluating program results, legal compliance, legislative intent, fairness of financial reporting, and simply providing factual information to the Legislature.

The accompanying biennial report details the most important aspects of our Office and what we do, and includes brief summaries of some of our more significant reports.

Sincerely,

A handwritten signature in cursive script, appearing to read "Harvey M. Rose".

Harvey M. Rose
Auditor General

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ORIGIN OF THE
INDEPENDENT AUDIT FUNCTION
IN CALIFORNIA

Twenty years ago, in 1954, both the legislative and executive branches of state government recognized the need for two types of audits in California, internal and independent. Internal audits would be coordinated within the executive branch of government. In contrast, independent audits would be put under the policy direction of a legislative committee.

Both branches of government needed straightforward information about program operations and expenditures to establish sound fiscal and administrative policies. The two types of audits would complement each other, acting as a system of checks and balances to improve the operating efficiency, economy and effectiveness of state agencies.

To this end, California's Legislature created the Office of the Auditor General and the Joint Legislative Audit Committee, and made us responsible for the independent audit function in California (Stats. 1955, Ch. 1699).

JOINT LEGISLATIVE AUDIT COMMITTEE

The Joint Legislative Audit Committee directs the functions of the Office of the Auditor General. All legislative committee requests for the Office of the Auditor General to conduct audits and special investigations must first be authorized by the Joint Legislative Audit Committee.

The Joint Legislative Audit Committee is bipartisan, and consists of four members of the Senate and four members of the Assembly. Under the Legislature's Joint Rules, the Senate and Assembly fiscal committee chairpersons are two of the eight members of the Joint Legislative Audit Committee. Senate members are appointed by the Senate Committee on Rules, and Assembly members are appointed by the Speaker of the Assembly.

THE OFFICE OF THE AUDITOR GENERAL

The Office of the Auditor General is a valuable legislative resource. It was created to "...make such special audits and investigations, including performance audits, of any state agency whether created by the Constitution or otherwise, as requested by the Legislature or any committee of the Legislature."

One of the reasons our Office was created was the Legislature's desire for objective, systematic information about executive program operations and results, unaffected by political pressures. Nonpartisanship, therefore, is essential to our work, and is a fundamental tenet of our professional ethic.

Our staff of 60 includes 52 professionals, including 18 certified public accountants and two lawyers. We have specialists with professional expertise in such fields as social welfare, budgeting, economics, electronic data processing, banking, statistics, education, health, investments and marketing. We do not claim to be experts in all fields. However, our staff members are trained to conduct in-depth interviews, to observe, and to review and analyze records to get the facts.

Audit Standards

The Office of the Auditor General is committed to the audit standards of the United States General Accounting Office (GAO). These standards are the product of extensive study of the auditing needs and practices of federal, state and local governments. The standards are printed in the GAO booklet, Standards for Audit of Governmental Organizations, Programs, Activities and Functions.

DEVELOPMENT OF
PERFORMANCE AUDITING

When the Joint Legislative Audit Committee began directing the operations of the Office of the Auditor General in 1956, our audits concentrated on the review of financial statements. After 1956, however, financial reporting improved within the executive branch, and the scope of their internal audits broadened to better serve management and the Legislature.

While financial reporting improved, legislators' demands increased for more complete information on the executive department's programs. They wanted to have this information provided, or at least concurred in, by someone who was not an advocate of the program, but who was independent and objective.

In 1966, the Joint Legislative Audit Committee responded to these demands by directing the Auditor General to conduct performance audits. We shifted the main thrust of our activities from financial audits to performance audits.

ELEMENTS OF A PERFORMANCE AUDIT

The Office of the Auditor General conducts performance audits of programs, departments, and agencies to evaluate legal compliance, efficiency and economy, and program results.

The objective of performance audits is to determine:

- Legal Compliance - If programs have been administered in accordance with the intent of the laws enacted by the Legislature.
- Efficiency and Economy - If programs have been administered using the least cost combination of public funds and other resources with a minimum of waste.
- Program Results - If the desired results or benefits of a program are being achieved, whether the program benefits exceed the program costs, and whether the objectives of the Legislature are being met.

There is tremendous potential benefit from performance audits, including (1) increased legislative understanding of selected programs, (2) improved government operations and services, and (3) identification of ways to save money including increased revenues and decreased expenditures.

FINANCIAL AUDITING

As directed by the Joint Legislative Audit Committee, the Auditor General conducts financial audits of state agencies to determine whether financial operations are properly conducted and whether the financial reports of the audited agency are presented fairly.

RESPONSIBILITIES AND
OBJECTIVES OF THE
OFFICE OF THE AUDITOR GENERAL

Our goal is to help achieve the most efficient, effective and economical government possible. To do that, we identify areas where efficiency might be improved or economies introduced.

It is our job to provide the Legislature and the taxpayers with independent quality audit reports containing thoroughly documented facts and appropriate recommendations presented in an objective and timely manner.

Our audit reports document the value of performance audits. Savings that would result from proper implementation of our recommendations amount to at least \$60,950,000 annually and a one-time savings of an additional \$128,878,597. These savings are listed on pages 18 and 19 in this report.

It is our objective to serve as an independent source of information on the accountability of public administrators for their programs. The public, who pays for and whose good is expected to be served by such programs, should be able to hold public officials accountable for their performance. The Joint Legislative Audit Committee and the Office of the Auditor General provide the Legislature and the public one important means of accomplishing this objective.

SELECTED
AUDIT REPORT SUMMARIES

148.2 - Foster Care In California

Due to a lack of staff, the state does not adequately monitor the \$108 million Aid to Families with Dependent Children -- Boarding Homes and Institutions (AFDC-BHI) Program. Variations in program administration among the county welfare departments create inequities in foster care throughout the state. A primary goal of the foster care program is to return children to their natural parents. This is not always a realistic goal when, for example, parents cannot be located or are making minimal efforts to even see the child. This report discusses making adoption an alternative, secondary goal of foster care for the 8,000 potentially adoptable children in California that cost \$29 million per year to keep in relatively unstable environments. Foster care and adoptions programs need to work more closely together if they are going to achieve their common goal to provide a stable, healthy home environment to children entrusted to them.

172 - Prepaid Health Plans

A review was made of 15 selected prepaid health plans (PHPs) that contract with the Department of Health to provide health care services for Medi-Cal recipients. During the three years from 1971 through 1973, the Department of Health paid \$56.5 million to the PHP contractors. Only 48 percent of that amount was

spent on actual health care services. The other 52 percent, or \$29.4 million, was expended for "administrative" costs, or resulted in net profits to these companies. The Auditor General recommended legislation be enacted to require that a minimum of 75 percent of all payments by the Department of Health to PHP contractors be spent for actual health care services, as existing legislation effectively requires for similar nonprofit hospital service plans.

The Department of Health has inadequate controls to ensure that health care services for Medi-Cal recipients enrolled in prepaid health plans are provided or paid for by the PHP contractor. Adequate controls could prevent duplicate payments by the state for health care services that the state has already paid the PHP contractor to provide. Inadequate controls resulted in approximately \$4.2 million of duplicate payments through 1973. The Auditor General recommended that the Department of Health (1) establish controls to preclude such duplicate payments for health care services to Medi-Cal patients enrolled in PHPs, and (2) determine to what extent the duplicate payments are recoverable.

182.2 - State Tideland Leases To Oil Companies and Public Utilities

State tideland leases executed by the State Lands Commission with oil and public utility companies were reviewed. The leases are for marine terminal facilities used to transfer petroleum and related products between ship and shore. The Auditor General pointed out that the value of tidelands to a

commercial user is relative to the amount of income that can be derived from their use. Lease rates based on the number of barrels of petroleum and related products transferred between ship and shore is far more equitable than arbitrary determinations of appraised values. A minimum charge of one percent per barrel for petroleum and related products transferred between ship and shore was recommended for leases of state-owned tidelands for marine terminal facilities. This would double annual revenues to the state within the first two years and would total at least \$2.4 million annually, once all the leases were renewed.

During 1972-73, the State Lands Commission approved five leases with Standard Oil Company of California. Standard paid \$429,319.64 in retroactive payments. However, the Commission did not include any interest in the retroactive payments made by Standard. The Auditor General recommended that the State Lands Commission include interest at not less than the prime rate on retroactive lease payments.

182.3 - State Lands Commission Trespass Activities

According to the State Lands Commission records, as of June 30, 1974, there were 754 recorded trespasses on public lands under jurisdiction of the commission. Of these trespasses, 89 percent have been recorded for three years or more. Trespasses include unauthorized land fills and unauthorized structures (piers, docks, etc.) on public lands. The procedures of the State Lands Commission to effect binding leases or to eject trespassers have been inadequate. As a result, there has been unauthorized use of public lands,

and the public's interest has not been adequately protected by the State Lands Commission. Based on estimates of the State Lands Division, at least \$200,000 in lease revenues is lost annually by the state.

The Auditor General recommended that the State Lands Commission expedite the disposition of the 754 recorded trespass cases and any subsequently discovered trespasses by either effecting binding leases or ejecting the trespassers from the public lands.

191.2 - State Office Space Leasing Versus Construction Practices

About 43 percent of an estimated 13 million square feet of office space occupied by state personnel, excluding state universities, colleges and institutions, is leased. In just two years, the amount of leased office space increased 21 percent, and the cost increased 34 percent. Legislative concern over the increased leasing activities prompted the request for a review of the operations of the Space Management Division and the Long Range Facilities Planning Office of the Department of General Services. Based on the audit findings, the Auditor General recommended that the \$3.6 million contained in the state's budget for the leasing of office space be used instead to finance construction of state office buildings with comparable space. Over the useful life of the buildings, this would result in a \$66 million savings to the state.

191.3 - Telephone Credit Cards

The state has a leased-line telephone system that provides low cost telephone service to most locations throughout the state. Despite this fact, over 10,500 state employees, or about 10 percent of the full-time workers, had been issued telephone credit cards by the Communications Division of the Department of General Services. Inadequate controls over the issuance and use of these credit cards permitted their misuse, and resulted in excessive telephone costs. Direct dial station-to-station calls and calls made through the lease-line system cost from 16 to 85 percent less than credit card calls. Alternatives to using credit cards to place calls exist in all instances, and result in better controls and in costs equal to or less than the costs resulting from the use of credit cards. As recommended by the Auditor General, the Department of General Services canceled all state telephone credit cards and now requires specific justification for the few instances where credit cards are considered necessary. A copy of the memo canceling the telephone credit cards follows.

MANAGEMENT MEMO

NO. 74-31	
SUBJECT: Issuance and Use of Telephone Credit Cards	DATE ISSUED: September 26, 1974
REFERENCES: Joint Legislative Audit Committee Letter, Aug. 30, 1974 and SAM Section 4537	EXPIRES: September 25, 1975

As of July 1, 1974 the State leased line telephone system (ATSS) was expanded to provide total telephone capability to all telephone exchanges in the State. This eliminated the requirement to place long distance toll calls from a State telephone to some locations of the State, particularly where State credit cards were being used for such calls. In addition, the cost of placing a third-party toll call through an operator (where the call is charged to another number) is now the same as a credit card call. Except for a few instances where special billing may be necessary because of fiscal grant requirements or special fund requirements, there is no longer a need for State telephone credit cards.

The current telephone company State credit cards will be automatically reissued by the telephone companies in December unless cancelled. As recommended by the Auditor General, all State telephone credit cards shall be cancelled immediately by advising the respective telephone companies in writing. Where credit cards are necessary because of fiscal requirements, justification shall be submitted to the Communications Division, Department of General Services.

The following paragraph will be added to SAM Section 4537 at the next regularly scheduled revision of SAM.

"In the few cases necessitated by grant or fund constraints, agencies requiring telephone credit cards will submit such requests to Communications Division for approval on Standard Form 20, Telephone Service Request. Justification shall include name of individual requiring credit card, department, division, and location. The need for the special billing requirements shall be fully explained. Periodically, Communications Division will request from agencies having credit cards copies of their credit card telephone bills for review."

Attached for your information is a copy of the letter to the Legislature from the Chairman of the Joint Legislative Audit Committee, transmitting the Auditor General's report on telephone credit cards. The final paragraph of that letter indicates the recommendation of the Auditor General. If you have questions, call Communications Division at 445-6996 or ATSS 485-6996.

Thank you!
Lawrence R. Robinson, Jr.
LAWRENCE R. ROBINSON, JR., Director
Department of General Services

Attachment

DISTRIBUTION: A B C D E F G H I J K L M N O P R S X MM

196 - Southern California Rapid Transit District

In July 1973, the Southern California Rapid Transit District (SCRTD) released a consultant's report recommending construction of a \$6.8 billion mass rapid transit system. The report contained a financial plan for construction and operation of the system over a 12-year period. However, the consultant's report did not include the amount by which projected operating deficits would exceed sales tax revenues, following the project's 12-year construction period. The consultant's undisclosed estimate of such deficits totaled \$210.3 million for just the first four years following construction. In addition, the consultant's report overstated the amount of federal funds available for construction of the system by at least \$1.9 billion. Alternatives used by other transit districts to finance their operations include increased sales taxes, ad valorem taxes, gasoline tax, and automobile in-lieu tax. Operating deficits might also be funded by increasing fares. However, the Auditor General noted that the latter alternative could result in decreased patronage and even greater deficits.

208 - Community Work Experience Program

California's Community Work Experience Program (CWEP) was a three-year experimental program designed to give "employable" welfare recipients enough unpaid work experience and training to enable them to get paying jobs. The goal of this Employment Development Department (EDD) program was to reduce or eliminate the person's need for welfare, and, ultimately, to reduce overall welfare costs. The Auditor General's report on CWEP

operations disclosed, however, that the program was implemented in a manner that would not allow its effect on welfare costs to be determined. Moreover, EDD understated the cost of the program and overstated the number of participants. While EDD expected first-year participation to reach 30,000 "employables", only 1,134 people, or less than four percent of the goal, participated in CWEP in fiscal year 1972-73. Further, EDD lowered its participation goal for the second year by 82 percent, and achieved less than 25 percent of this sharply reduced participation. The Legislature decided to eliminate the third year of the CWEP program, but the legislation was vetoed by the Governor.

216.1 - Pooled Money Investment
Board and the State Treasurer

The Office of the Auditor General completed a management audit of the investment and bank deposit policies of the Pooled Money Investment Board and the related procedures of the State Treasurer, who is responsible for the administration of the board's policies. The Pooled Money Investment Board consists of the State Controller, Treasurer, and Director of Finance. While, in fiscal year 1973-74, the board members were commended for earning interest income of \$231.2 million, the highest amount of interest income in the state's history, they must accept responsibility for the fact that as a result of their policies and procedures and their failure to obtain broader investment authority, additional interest income, conservatively estimated at \$11.2 million annually, was lost by the state.

Further, the Treasurer must accept responsibility for not having requested authorization from the Legislature since 1970 to issue lower interest rate general obligation refunding bonds to replace high interest rate state bonds. Unless such authorization is obtained for bonds issued in fiscal year 1974-75, approximately \$18.7 million of unnecessary bond interest costs will be incurred by the state over the average life of the bonds for each one-half of one percent decrease in interest rates. Reports and records of the State Treasurer relating to the state's deposit and investment activities do not provide full disclosure to the public, do not document that competitive procedures have been utilized, are not summarized in a manner to evaluate performance and make sound policy decisions, and are untimely.

The Auditor General made 21 recommendations to correct the findings in the report. Among others, he recommended that (1) the Pooled Money Investment Board discontinue its requirement to maintain \$250 million in certain interest bearing bank accounts so that the state can obtain the highest available interest income from other authorized bank deposits and investments, consistent with safe and prudent treasury management and consistent with state law; (2) the board reduce the excessive state funds maintained in non-interest bearing checking accounts deposited in ten banks; (3) the Treasurer request the Legislature to authorize the investment of state funds in negotiable certificates of deposit and request the Legislature for broader authority to invest in commercial paper; and (4) the Controller discontinue

early disbursement of state funds. Proper implementation of the 21 recommendations will result in increased interest income conservatively estimated at \$11.2 million annually, and could result in reduced bond interest costs of approximately \$18.7 million. In accordance with two of our recommendations, on January 9, 1975, legislation was introduced for authorization to invest state funds in negotiable certificates of deposit, and for authorization to invest 30 percent of state funds in commercial paper for terms of up to 270 days. These two recommendations will produce approximately \$5 million annually of the \$11.2 million previously mentioned.

220.1 - Parks and Recreation
Concession Agreements for Park Property

As a result of improper concession agreements approved by the Department of Parks and Recreation, the public is excluded from three beach-front properties that were acquired for state park purposes. These three parcels are used instead by two private beach clubs and a private university. The Sand and Sea Club and the Jonathan Club are both in Santa Monica. The third parcel, at Malibu Lagoon State Beach, is used by Pepperdine University as a residence for its chancellor. Because use of these properties by private persons to the exclusion of the public is clearly improper, the Auditor General recommended that all three concession agreements be terminated, and that the property be made available to the public.

ESTIMATED SAVINGS THAT
WOULD RESULT FROM PROPER
IMPLEMENTATION OF RECOMMENDATIONS

	SAVINGS	
	Annual	One-Time
<u>BUSINESS REGULATION, LICENSING - CONSUMER PROTECTION</u>		
<u>State Banking Department</u>		
(193) Eliminate 13 examiner positions.	\$ 319,000	
<u>Department of Corporations</u>		
(194.1) Increase fees to cover administrative costs of laws under its jurisdiction.	200,000	
Eliminate 22 excessive positions.	200,000	
<u>EDUCATION</u>		
<u>School District Funds Disbursement</u>		
(199) Eliminate duplicate financial activities and 197 related positions.	3,500,000	
<u>ELECTIVE OFFICES AND INDEPENDENT COMMISSIONS</u>		
<u>Office of the Secretary of State</u>		
(247) Collect dishonored checks.		\$ 31,900
Require filing and annual fee.	96,000	
<u>ELECTRONIC DATA PROCESSING</u>		
<u>Teale Data Center</u>		
(141.5) Award equipment contract to lowest responsible bidder.		15,000,000
(214.1) Release redundant IBM equipment and reduce program conversion costs.		8,000,000
<u>FISCAL AFFAIRS</u>		
<u>State Treasurer's Investment Policies</u>		
(216) Reduce state bond interest costs.		18,700,000
Earn additional interest income.	11,200,000	
<u>State Controller - Unclaimed Property</u>		
(244) Collect underpayments from banks.		3,600,000
<u>GENERAL GOVERNMENT</u>		
<u>General Services</u>		
(191.1) Discontinue overcharging for services and supplies.		12,300,000
(191.2) Spend money to build office space instead of lease payments.		66,000,000
(Savings calculated after construction costs.)		

	SAVINGS	
	Annual	One-Time
<u>GENERAL GOVERNMENT (cont'd)</u>		
<u>General Services</u>		
(191.3) Cancel telephone credit cards issued to 10,500 state employees.	*	
(228.1) Adopt self-insurance program for state vehicles.		\$ 500,000
Request refunds for workmen's compensation payments in excess of costs.		673,000
<u>Board of Control</u>		
(226.1) Establish rental rates of at least one percent per month of independently determined fair market values.	\$ 1,200,000	
<u>HEALTH AND WELFARE</u>		
<u>Foster Care</u>		
(148.2) Allow adoption workers sufficient time to place 8,000 potentially adoptable children.	29,000,000	
<u>Commission on Aging</u>		
(171.2) Accept available federal grant.		405,000
<u>Prepaid Health Plans</u>		
(172.1) Reduce Medi-Cal contractors' administrative costs.	12,500,000**	
(172.2) Collect duplicate payments for dental care to Medi-Cal patients.		960,000
Establish adequate controls to preclude duplicate Medi-Cal payments for health care services.	***	
<u>JUSTICE</u>		
(223.2) Eliminate unnecessary rental facilities.		2,000,000
Replace 5 attorneys with 5 legal secretaries or administrative assistants.	65,000	
<u>RESOURCES</u>		
<u>State Lands Commission</u>		
(091.3) Collect reimbursable expenditures in excess of contract provisions.		198,697

*Undetermined.

**If health care services are inadequate, this money would be available to improve the health care of Medi-Cal patients.

***The lack of such controls has already resulted in approximately \$4.2 million of duplicate payments by the state.

RESOURCES (cont'd)

State Lands Commission

- (182.2) Establish minimum per-barrel charge for ship-to-shore transfer of petroleum and related products.
Charge interest on retroactive lease payments.
- (182.3) Effect binding leases for trespasses on state land.

VETERANS AFFAIRS

Farm and Home Loan Fund

- (202) Abolish 24 vacant staff positions.
Reduce postage costs by mailing payment notices annually instead of monthly.

Total

SAVINGS	
Annual	One-Time
\$ 2,400,000	
	\$ 110,000
200,000	
	400,000
70,000	
<u>\$60,950,000*</u>	<u>\$128,878,597</u>

*Excludes \$4.2 million of duplicate medical payments and savings resulting from cancellation of telephone credit cards to state employees.

REPORTS OF THE
OFFICE OF THE AUDITOR GENERAL
ISSUED DURING CALENDAR YEARS 1973 AND 1974

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AUTHORITY

PERTINENT STATUTES RELATING TO THE JOINT
LEGISLATIVE AUDIT COMMITTEE AND THE AUDITOR GENERAL

GOVERNMENT CODE

Article 1. Joint Legislative Audit Committee

10500. The Legislature finds that auditing is now conducted by various state agencies and recognizes the needs of the executive branch of the state government for periodic and special audits of the revenues and expenditures of any state agency, and the accounting and fiscal reporting systems established in state agencies, as a means of insuring the proper and lawful expenditure of state funds. The Legislature, also, recognizes the necessity of an independent audit, in addition to the audit conducted within the executive branch of state government, for the use of both the executive and legislative branches of the state government in establishing a sound fiscal and administrative policy for the government of the state.

Therefore, it is the desire of this Legislature that the internal auditing be coordinated in the executive branch of the government in the interest of economy and efficiency. It is also the desire of the Legislature to create the office of the Auditor General, whose primary duties shall be to examine and report annually upon the financial statements prepared by the executive branch of the state and to perform such other related assignments, including performance audits, as may be requested by the Legislature. The authority of the office under the direction of the Joint Legislative Audit Committee is confined to examining and reporting and is in no way to interfere with adequate internal audit to be conducted by the executive branch of the government.

10501. The Joint Legislative Audit Committee is hereby created. The committee shall determine the policies of the Auditor General, ascertain facts, review reports and take action thereon, and make reports and recommendations to the Legislature and to the houses thereof concerning the state audit, the revenues and expenditures of the State, its departments, subdivisions, and agencies, whether created by the Constitution or otherwise, and such other matters as may be provided for in the Joint Rules of the Senate and Assembly. The committee has a continuing existence and may meet, act, and conduct its business at any place within this State, during the sessions of the Legislature or any recess thereof, and in the interim period between sessions.

10502. The committee shall consist of three Members of the Senate and three Members of the Assembly who shall be selected in the manner provided for in the Joint Rules of the Senate and Assembly. The committee shall elect its own chairman. Vacancies occurring in the membership of the committee between general sessions of the Legislature shall be filled in the manner provided for in the Joint Rules of the Senate and Assembly. A vacancy shall be deemed to exist as to any member of the committee whose term is expiring whenever such member is not reelected at the general election.

10503. The committee is authorized to make rules governing its own proceedings and to create subcommittees from its membership and assign to such subcommittees any study, inquiry, investigation, or hearing which the committee itself has authority to undertake or hold. The provisions of Rule 36 of the Joint Rules of the Senate and Assembly relating to investigating committees shall apply to the committee and it shall have such powers, duties and responsibilities as the Joint Rules of the Senate and Assembly shall from time to time prescribe, and all the powers conferred upon committees by Section 11, Article IV, of the Constitution.

Notwithstanding any other provision of law to the contrary, the committee shall establish priorities and assign all work to be done by the Auditor General.

10504. The committee shall have authority to appoint an Auditor General, deputies and staff, who shall serve at the pleasure of the committee. The committee shall fix the salary of the Auditor General. The funds for the support of the committee shall be provided from the Contingent Funds of the Assembly and Senate in the same manner that such funds are made available to other joint committees of the Legislature.

10505. The governing board or retirement board of the retirement system of every local agency as defined in Section 54951, shall on or before six months following the close of the fiscal year transmit to the committee a report containing a description of all securities held and a comprehensive report of transactions involving the investments of their retirement funds similar to that required of a life insurance company licensed to do business in California. Such report shall include all security transactions, including whom the board purchased securities from and through whom the board purchased. The board shall also so report on all mortgage transactions, including specifically the mortgage broker, mortgage banker, and savings and loan association the board does business with, whether the transaction involved cash, and which banks or savings and loan associations the board has accounts with.

Article 2. Auditor General

10521. The Auditor General, prior to his appointment, shall possess the following minimum qualifications:

(a) He shall be in possession of a valid certificate issued by the State Board of Accountancy to practice as a certified public accountant or a public accountant, and

(b) The combination of education and experience which in the opinion of the committee is necessary.

10522. The Auditor General shall be paid the salary fixed by the Joint Legislative Audit Committee and shall be repaid all actual expenses incurred or paid by him in the discharge of his duties.

10523. The Auditor General may employ and fix the compensation, in accordance with Article XXIV of the Constitution, of such professional assistants and clerical and other employees as he deems necessary for the effective conduct of the work under his charge.

10524. The permanent office of the Auditor General shall be in Sacramento, where he shall be provided with suitable and sufficient offices. When in his judgment the conduct of his work requires, he may maintain offices at other places in the State.

10525. All books, papers, records, and correspondence of the bureau pertaining to its work are public records and shall be filed at any of the regularly maintained offices of the Auditor General, except:

(a) Papers or memoranda that are of no further use may be destroyed upon approval of the Joint Legislative Audit Committee.

(b) Personal papers and correspondence of any person receiving assistance from the Auditor General when such person has requested in writing that his papers and correspondence be kept private and confidential. Such papers and correspondence shall become public records whenever the Auditor General or the Legislature shall so order or the written request is withdrawn.

(c) Papers, correspondence or memoranda pertaining to any audit or investigation not completed, when in the judgment of the Auditor General, disclosure of such papers, correspondence, or memoranda will impede such audit or investigation.

10526. It shall be a misdemeanor for the Auditor General or any employee of the bureau to divulge or make known in any manner not permitted by law, any particulars of any record, document, or information the disclosure of which is restricted by law.

10527. The Auditor General during regular business hours shall have access to, and authority to examine, any and all books, accounts, reports, vouchers, correspondence files and other records, bank accounts, and money or other property, of any agency of the State whether created by the Constitution or otherwise, and it shall be the duty of any officer or employee of any such agency, having such records or property in his possession or under his control, to permit access to, and examination thereof upon the request of the Auditor General or his authorized representative. Any officer or person who shall fail or refuse to permit such access and examination, shall be guilty of a misdemeanor.

10528. The Auditor General, with the approval of the Joint Legislative Audit Committee, shall examine and report annually upon the financial statements prepared by the executive branch of the state to the end that the Legislature will be informed as to the adequacy of such financial statements in compliance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year. In making such examination, he is authorized to make such audit examination of accounts and records, accounting procedures and internal auditing performance as the Joint Legislative Audit Committee may determine and specifically designate to be necessary to disclose all material facts necessary to proper reporting to the Legislature in accordance with the statement of purposes set forth in Section 10500. He shall make such special audits and investigations, including performance audits, of any state agency whether created by the Constitution or otherwise, as requested by the Legislature or any committee of the Legislature.

JOINT RULES OF THE SENATE AND ASSEMBLY (1973-74)

37.3 The Joint Legislative Audit Committee is created pursuant to the Legislature's rulemaking authority and specific constitutional authority by Chapter 4 (commencing with Section 10500) of Part 2, Division 2, Title 2 of the Government Code. The committee shall consist of four Members of the Senate and four Members of the Assembly who shall be selected in the manner provided for in these rules, of which one shall be the chairman of the fiscal committee for the Senate and one the chairman of the fiscal committee for the Assembly. Notwithstanding anything to the contrary in these rules, two members from each house constitute a quorum and the number of votes necessary to take action on any matter. The Chairman of the Joint Legislative Audit Committee, upon receiving a request by any Member of the Legislature or committee thereof for a copy of a report prepared or being prepared by the Auditor General, shall provide the member or committee with a copy of such report when it is, or has been, submitted by the Auditor General to the Joint Legislative Audit Committee.